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Finance and Policy

Massachusetts Health Care Cost Trends

Premium Levels and Trends in Private Health Plans: 2007-2009

Executive Summary

May 2011

DIVISION OF
Health Care
Finance and Policy

Introduction

Pursuant to the provisions of M.G.L. c. 118G, § 6 1/2, the Massachusetts Division of Health Care Finance and Policy (DHCFP) is required to conduct an annual study of health care cost trends in the Commonwealth, and the factors that contribute to cost growth. This report discusses enrollee demographics in the Massachusetts commercial markets, trends in premiums paid by employers and consumers for health insurance, the medical expenses and retention charges included in those premiums, and the impact of premium trends on the health insurance purchasing decisions of employers and individuals.

Throughout the report, the insurance market sectors are defined as follows: individuals are those who purchase coverage directly; small groups are those with 1 to 50 eligible employees (as defined by Massachusetts Division of Insurance regulation 211 CMR 66.04); mid-size groups are those with 499 or fewer enrolled employees, that do not meet the definition of a small group; and large groups are those with 500 or more enrolled employees. Collectively, individuals and small groups are referred to as the "merged market."

Findings are based primarily on premium, claims, membership, and non-medical expense data provided by the largest health insurance carriers in the Commonwealth from 2007 to 2009.

Overview of the Massachusetts Insurance Market

Since the passage of the Commonwealth's landmark health reform legislation in 2006, the Massachusetts health insurance market has undergone several key regulatory changes. In addition to the expansion of subsidized coverage, the establishment of an individual mandate, and the creation of incentives for employers to offer coverage, the law also combined the individual and small group markets into a single "merged market" to provide greater premium affordability, stability, and product offerings to individuals. The merged market allows individuals to purchase the same range of products available to small groups. Premium rates are based on the projected claims experience of the entire merged market, which consists of more small group members than individual purchasers.

Private Insurance Enrollment

This portion of the analysis explores changes to the number of people covered by private insurance in Massachusetts, enrollment shifts between the various group sizes, and changes in demographic trends for those with private insurance. These trends are important because they impact a carrier's determination of health insurance premium rates.

Key findings include:

- Annual enrollment declined in all fully-insured group sectors (small, mid-size, and large) from 2007 to 2009, but increased in the individual and self-insured market sectors.
- The average size of insured small and mid-size groups (measured as the number of subscribers per employer) decreased from 2008 to 2009, while the average size of large groups and self-insured groups was relatively stable.
- The individual sector was significantly older on average than the group sectors, covering relatively few children aged 0 to 19 and relatively more adults aged 60 to 64, despite the inclusion of Young Adult Plans in the individual sector.

Private Insurance Enrollment

	2007	2008	2009
Individual Pre-Merger Products	35,700	14,238	3,541
Individual Post-Merger Products	12,566	57,091	77,869
Individual Total	48,266	71,329	81,410
Small Group	692,777	668,421	623,344
Mid-Size Group	780,151	759,422	739,524
Large Group	565,845	520,842	485,351
Self Insured	1,978,340	1,984,767	2,044,369
Total	4,065,380	4,004,780	3,973,999

Premium Trends

This section of the analysis highlights the trends in health insurance premium growth in the private market in Massachusetts. Some of the data is presented as *unadjusted* and other data as *adjusted*. *Unadjusted* levels and trends represent exactly what the employer spent on health insurance premiums. In contrast, *adjusted* levels and trends are controlled for certain factors in order to allow for direct comparison across groups and between years. *Adjusted* premium information presented includes only group sectors (small, mid-size, and large), not the individual sector or merged market. Key findings include:

- From 2007 to 2009, private group health insurance premiums in Massachusetts increased roughly 5 to 10 percent annually, when adjusted for benefits. This compares to consumer price index (CPI-U) increases (for all goods and services) averaging 1.7 percent annually over the same time period nationwide and 2.0 percent in the Northeast.

Premium Trend Adjusted for Benefits

	Percent Change	
	2007-2008	2008-2009
Small Group	9.8%	9.5%
Mid-Size Group	6.1%	7.6%
Large Group	6.2%	5.4%

- Smaller groups paid higher premiums from 2007 to 2009 than mid-size and large groups, when adjusted for demographics, geographic area, and benefits. It is important to note that premium increases for specific employers may vary significantly from the average.

Premium Levels Adjusted for All Factors

	Premium PMPM		
	2007	2008	2009
Small Group	$465	$505	$548
Mid-Size Group	$436	$461	$493
Large Group	$422	$447	$470

- In 2009, small groups had the greatest variation in rate increases of any other group sector, reflecting greater premium volatility in this market sector.[1]
- On average, the level of benefits covered by private group health insurance has declined and member cost-sharing has increased.
  - Deductibles and copayments generally increased from 2007 to 2009. For example, in the small group sector, the inpatient copayment in the most popular HMO plan increased from $500 to $1,000.
  - Among small groups, average benefits decreased 3.6 percent from 2007 to 2008 and 6.6 percent from 2008 to 2009.
  - Due primarily to benefit reductions, premium trends unadjusted for benefits and demographics were lower than the trends adjusted for benefits. This was most notable in the small group sector.

Premium Trend Unadjusted

	Percent Change	
	2007-2008	2008-2009
Small Group	5.8%	2.2%
Mid-Size Group	5.2%	5.6%
Large Group	6.1%	4.3%

- Enrollment in the lowest-cost HMO plan and the lowest-cost PPO plan was uniformly low. From 2007 to 2009, enrollment in the lowest-cost HMO and PPO plans combined increased to just two percent in the merged market, and one percent in the mid-size and large group market sectors.

Medical Loss Ratios

This section of the analysis explores the breakdown of private health insurance premiums in Massachusetts between medical and non-medical spending. The medical loss ratio identifies the portion of the premium devoted to actual health care expenses. The remaining portion, called retention, is the portion of the premium used to fund non-medical, administrative expenses and contributions to surplus or profit.

[1] Premium growth volatility can be substantial in the small group market due to changes in subscriber demographics (as each subscriber represents a significant percentage of the total group) or changes in the number of enrolled subscribers (as most carriers set premium rates based in part on the size of the group).

Key findings include:

- From 2007 to 2009, the medical loss ratio calculated across all insured market sectors increased from 88 percent to 91 percent.
- Small groups paid a larger per member per month (pmpm) amount towards retention than did large groups. In 2007 and 2008, small groups paid 120 percent of what large groups did on a pmpm basis towards non-medical spending. In 2009, that figure rose to 141 percent.
- Contribution to surplus (for not-for-profit companies) or profit (for "for-profit" companies) accounted for roughly 25 percent of retention charges built into pricing in all insured market sectors in April 2010.

2010 Market Changes

In 2010, material changes occurred in the health insurance markets in Massachusetts and nationwide. Federal health care reform (the Patient Protection and Affordable Care Act or the ACA) was signed into law in 2010, just after the 2007-2009 time period reflected in the data requested for this study. Additionally, Governor Patrick directed the Massachusetts Division of Insurance in 2010 to increase its oversight of the merged market. Emergency regulations were promulgated requiring health insurance carriers to file their proposed rates 30 days prior to their effective date with documentation justifying the necessity of any requested increases. On April 1, 2010, the Commissioner of Insurance disapproved 235 of 274 proposed rate increases. The impacted carriers called for hearings on the disapproved rates and the Division of Insurance and carriers settled at premium levels that saved Massachusetts small group and individual covered persons over $100 million. Finally, state legislation enacted in 2010 (Chapter 288 of the Acts of 2010) implemented additional reforms in the regulation of the merged market. Given the scope of this report's analysis, it was not possible to directly attribute premium levels and trends to any one change in federal or state law.

Preliminary findings on first quarter 2010 premiums and calendar year 2010 medical loss ratios are below. Specifically:

- Quoted rates for small groups rose sharply in the first quarter of 2010. Roughly 15 to 20 percent of members in the small group market renewing in the first quarter received quoted rate increases of 35 percent or more. Over half received a quoted rate increase of 20 percent or more.
- In 2009, carriers incurred claims and administrative expenses for comprehensive major medical products equal to 101.6 percent of premium, equating to a 1.6 percent underwriting loss. In 2010, incurred claims and administrative expenses represented 100.0 percent of premium, or a break-even underwriting result.

- Medical loss ratios across all market segments combined, as reported in carrier financial statements, decreased from 90.5 percent in 2009 to 89.4 percent in 2010. The decrease in medical loss ratio from 2009 to 2010 appears to be the result of a slowing trend in medical expenditures, both locally and nationally. While medical claims expenditures in Massachusetts increased annually between 6.3 percent and 11.7 percent from 2002 to 2009, they increased by just 3.7 percent from 2009 to 2010. However, it is not yet possible to determine if a decline in growth of medical claims expenses may impact total health care spending. Medical claims expenditures reflect carrier payments and do not include cost-sharing amounts, so changes in the rate of increase may be the result of benefit buy-down.

Conclusion

The findings of this analysis indicate that health insurance premium increases in Massachusetts continue to outpace inflation. This trend presents a multitude of challenges to nearly every facet of the Commonwealth's health and economy. If health care costs and health premiums continue to rise faster than wage growth, employees may struggle with increased premium contributions and cost-sharing responsibilities. Furthermore, with ever-higher premiums being quoted by carriers to local businesses, many employers will continue to "buy down" benefits, potentially leaving employees and their families more exposed to cost and less likely to access needed care because of additional copayments, co-insurance, or deductibles. The continued growth in health insurance premiums threatens the welfare of the Massachusetts economy.

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Acknowledgments:
Analysis provided by Dianna Welch, FSA, MAAA, Oliver Wyman Actuarial Consulting, Inc.

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Publication Number: 11-146-HCF-02
Authorized by Gary Lambert, State Purchasing Agent

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